

**Appeals Could Take Additional Actions to
Improve the Timeliness of Collection Due
Process Cases**

September 2003

Reference Number: 2003-10-202

This report has cleared the Treasury Inspector General For Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 23, 2003

MEMORANDUM FOR CHIEF, APPEALS

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Assistant Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Final Audit Report - Appeals Could Take Additional Actions to
Improve the Timeliness of Collection Due Process Cases
(Audit # 200210047)

This report presents the results of our review of case processing of Collection Due Process (CDP) appeals in the office of the Chief, Appeals (Appeals). The overall objective of this review was to determine the effectiveness of the actions taken to decrease the processing time for Appeals CDP cases and what additional improvements could be made.

In summary, concern about the timeliness of processing CDP cases and increasing CDP inventories led Appeals management to designate the CDP inventory as its highest priority in Fiscal Year (FY) 2002. Appeals employed additional Appeals and Settlement Officers (hearing officers) and administrative staff, and provided Appeals employees and managers with CDP training to improve the processing of CDP cases.

While these actions have resulted in some improvements in the timeliness of processing CDP cases, additional improvements could be achieved by requiring that hearing officers make timely initial taxpayer contacts. We found that cases were completed in an average of 106 days when hearing officers made meaningful contacts with taxpayers within 30 days of having the cases assigned to them, while other cases were completed in an average of 287 days when hearing officers delayed initial taxpayer contacts.

High inventory levels did not explain why the delays occurred, because inventory levels were similar among the hearing officers. We believe that the delays occurred because Appeals had not established a specific time period within which hearing officers were required to discuss the case with taxpayers or schedule a hearing. In addition, although Appeals managers and quality review staff conduct multiple reviews, they did not

concentrate on the timeliness of discussing the CDP case with the taxpayer or scheduling a hearing.

Delays in processing CDP cases increase the risk that fewer tax dollars will ultimately be collected on the underlying delinquencies. We estimate that taxpayers with 2,735 CDP cases were delayed from May to mid-August 2002. The Internal Revenue Service (IRS) is generally prohibited from taking collection action while a CDP case is under consideration and being processed. We found that for CDP cases that received a determination letter in FY 2002, collection action had subsequently been suspended on about 35 percent of the taxpayer accounts with about \$107 million in delinquencies. We believe that suspending these accounts could ultimately reduce the tax dollars collected. In addition, customer surveys of taxpayers show that those with CDP cases have been concerned about the length of time it takes to process CDP cases.

We recommended that the Chief, Appeals, revise Internal Revenue Manual (IRM) guidelines to require that hearing officers discuss the CDP case with the taxpayer or schedule a hearing within 30 days of CDP case assignment. Also, we recommended that the Appeals quality review staff provide ongoing data on the timeliness of initial taxpayer contacts.

Management's Response: The Chief, Appeals, agreed with our recommendations and is taking appropriate corrective actions. Appeals will issue an operational priority letter at the beginning of FY 2004, which will refer to our recommendation. At a later date, Appeals expects to update formal guidance in the IRM to require that hearing officers contact a taxpayer within 30 days to discuss the taxpayer's case or to schedule a future conference date. Appeals will also modify the quality review system to monitor the progress of implementing the new guidance. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Appeals Could Take Additional Actions to Improve the
Timeliness of Collection Due Process Cases**

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Appeals Could Take Additional Actions to Improve the Timeliness of Collection Due Process Cases

Background

If taxpayers disagree with a tax liability or certain collection actions proposed by an Internal Revenue Service (IRS) Compliance employee,¹ they have the right to ask for an administrative review by the office of the Chief, Appeals (Appeals). Section 3401 of the IRS Restructuring and Reform Act of 1998 (RRA 98)² gives taxpayers the right to a Collection Due Process (CDP) hearing with Appeals when the taxpayers are subject to lien or levy enforcement actions. A lien is a claim on a taxpayer's assets for the amount of an unpaid tax liability. Taxpayers are generally notified after a lien is filed. A levy is a legal seizure of property to pay the taxpayer's tax liability. Taxpayers are notified at least 30 days in advance when the IRS intends to levy.

Taxpayers have within 30 days of being notified of lien or levy enforcement actions to request a CDP hearing in writing. If the request is filed on time, Appeals provides the taxpayer a CDP hearing. Levy action and most other collection actions are suspended until Appeals renders a determination. Appeals provides taxpayers, who file a late request, with a hearing that is equivalent to the CDP hearing.

Equivalent Hearing procedures are very similar to those for timely received CDP requests; therefore, Appeals generally regards Equivalent Hearing cases as part of the CDP inventory. Since 1999, when CDP hearings began in Appeals, the volume of CDP and Equivalent Hearing requests has increased steeply each year. In Fiscal Year (FY) 2000, there were about 6,900 requests; in FY 2001, about 19,000; and in FY 2002, about 27,000. In FY 2002, approximately one-third of the total requests were for Equivalent Hearings.

Appeals' overall inventory has been increasing as well, and Appeals management expects this trend to continue. Appeals is projecting a growth of 10 percent in receipts

¹ Compliance employees include Revenue Agents, Tax Examiners, and Revenue Officers who work in the IRS Examination and Collection functions.

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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from FY 2003 to FY 2004. However, over the same period, Appeals management expects a 5 percent decrease in staff due to budgetary constraints. The need to accomplish more with fewer resources presents real challenges to Appeals and increases the need for Appeals to continue to seek more efficient ways to manage its workload.

Appeals CDP case processing begins when the Collection office sends Appeals the CDP case. An Appeals manager assigns the CDP case to an Appeals Officer or Settlement Officer (hearing officer). Either the hearing officer or another Appeals staff person sends the taxpayer a letter acknowledging receipt of the CDP case and sometimes requesting additional information or setting a hearing date. Otherwise, the hearing officer contacts the taxpayer later by telephone or letter to request additional information or set up a hearing date.

During the CDP hearing, the hearing officer must:

- Verify that the IRS followed legal and administrative procedures.
- Consider issues raised by the taxpayer.
- Consider whether the proposed collection action balances efficient tax collection with the taxpayer's legitimate concerns.

The hearing officer also will work with the taxpayer to facilitate collection if the taxpayer proposes collection alternatives, such as an installment agreement. After the hearing has been held and the hearing officer has obtained any additional information needed, Appeals issues a determination letter explaining Appeals' findings and resulting decision, as well as any agreements reached with the taxpayer, any relief given the taxpayer, and any actions the taxpayer or the IRS is required to take.

After an Appeals manager reviews the findings reached by the hearing officer, a determination letter is sent to the taxpayer. Taxpayers can refute the findings and resulting decision in the determination letter by appealing to the Tax or District Court within 30 days. Appeals holds CDP cases at least 45 days to monitor for a court appeal, and, if there is

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none, the administrative staff closes the CDP case in Appeals and sends it back to the Collection function. The Collection function is responsible for inputting a computer code to the taxpayer's account to resume collection actions and to proceed in accordance with the determination by Appeals.

Appeals management and customers have expressed concern over the length of time it takes to process CDP cases. Appeals National Headquarters management has directed Appeals managers to monitor CDP cases that become over-age. In addition, Appeals managers work with the hearing officers to ensure timely actions are taken to close the over-age CDP cases. Generally, a CDP case becomes over-age at 60 days from CDP case assignment to a hearing officer for certain priority CDP cases, or at 180 days for all other CDP cases. Appeals management monitors timeliness, as well as other quality measures, through its Appeals Quality Measurement System (AQMS).

This review was conducted at the Appeals office in the IRS National Headquarters in Washington, D.C., as well as in the Austin and Dallas, Texas; Nashville, Tennessee; and Tampa, Florida, Appeals offices from December 2002 through July 2003. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Delays in Initial Taxpayer Contacts Prolonged Processing Time for Taxpayer Collection Due Process Cases

In FY 2002, to better manage the length of time to process taxpayers' CDP cases, Appeals management designated the processing of CDP inventory as its highest priority. Appeals management told us that it took the following actions to improve CDP processing:

- Employed additional hearing officers and administrative staff.
- Reduced competing priorities for hearing officers.
- Improved procedures to deal more effectively with various inventory types.

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- Provided Appeals employees and managers with CDP training.

Consequently, Appeals applied about 165 percent more direct hours to CDP cases in FY 2002, and attempts to keep pace with the inventory volume were at least partially successful. However, the average number of hours to complete a taxpayer's CDP case has remained stable, indicating that efficiencies have been limited.

Appeals actions have resulted in some improvements in the timeliness of processing taxpayers' CDP cases. The time period for hearing officers to issue taxpayer determination letters dropped from an average of 266 days in FY 2002 to an average of 206 days during the first 6 months of FY 2003,³ a drop of almost 23 percent. The average time to complete the processing of a taxpayer CDP case from receipt of the case to closing dropped from an average of 330 days in FY 2002 to an average of 316 days during the first 6 months of FY 2003,⁴ a 4 percent reduction.

Our analysis indicated that more could have been done to improve CDP case processing in the 68 CDP cases we sampled. Hearing officers' delays in initiating taxpayer contact prolonged the time for CDP case processing. Our analysis indicated that the longest processing phase was from when the hearing officer discussed the CDP case with the taxpayer or scheduled a hearing, until the determination was made (average of 91 days). However, the second longest processing phase was from when the hearing officer was assigned the taxpayer's CDP case until when the hearing officer discussed the case with the taxpayer or scheduled a hearing (average of 86 days). See Appendix V for a timeline of average times to complete CDP case processing phases.

³ The time for a hearing officer to issue a determination letter means the time from when a CDP case is assigned to the hearing officer to when a determination letter is sent to the taxpayer.

⁴ Case closure means the time from receipt to closure in Appeals—the time at which Appeals determines that the taxpayer has not taken a case to court, if applicable, and that the case is ready to be sent back to the Collection office.

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We believe that Appeals could process CDP cases more timely if hearing officers promptly contacted taxpayers. Our review of 68 statistically sampled CDP cases identified prompt contacts with taxpayers as the factor most likely to lead to quick resolution of a CDP case. We estimate that the time from the CDP case assignment to a hearing officer, to issuance of the taxpayer determination letter, could have been reduced for the sample population by about 38 percent (78 days) if hearing officers had discussed the CDP case with the taxpayer or scheduled a hearing within 30 days. We estimate that taxpayers with 2,735 CDP cases (56 percent of the sample population) were delayed during our sample period from May to mid-August 2002. See Appendix IV for detailed information on the measurable impact that our recommended corrective actions will have on tax administration.

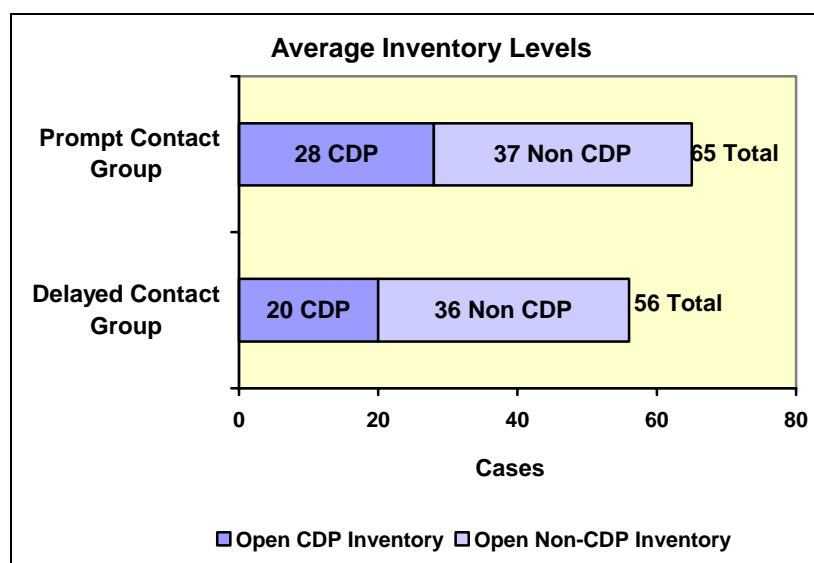
The hearing officers who made prompt taxpayer contact issued determination letters to taxpayers more quickly and applied fewer hours to working a CDP case. To evaluate the effect of delayed contacts, we separated the 68 sampled CDP cases into 2 groups, those in which the hearing officer discussed the CDP case with the taxpayer or scheduled a hearing with taxpayers within 30 days of case assignment (prompt contact), and those in which the hearing officer took longer than 30 days to make contact (delayed contact). The prompt contact group contacted taxpayers in 10 days on average, while the delayed contact group contacted taxpayers in 147 days on average. Appeals issued determination letters to taxpayers in 106 days on average for the prompt contact group (30 CDP cases). However, determination letters were not issued to taxpayers for an average of 287 days for the delayed contact group (38 CDP cases).

Hearing officers applied fewer direct hours to working on the taxpayers' CDP cases in the prompt contact group. The hearing officers applied 11 direct hours on average to a CDP case in the prompt contact group, while hearing officers in the delayed contact group applied 17 direct hours on average.

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High inventories and routing CDP cases to other offices did not account for delays

Appeals management had identified high inventory levels as the primary cause for delays in processing CDP cases. However, in the CDP cases we sampled, the hearing officers' inventory levels did not appear to affect the timeliness of processing taxpayers' CDP cases. As of September 2002, hearing officers in the prompt contact group had more open taxpayers' CDP cases than those in the delayed contact group. There was also no significant difference in the total number of all open cases between the two groups.



Source: Our analysis of sampled CDP case data. Five hearing officers each had two CDP cases in the sample. The results in the chart include each of these hearing officers twice—once for each CDP case. Otherwise, hearing officers each had only one CDP case in the sample.

Appeals management also identified the need to route CDP cases to the Examination or Collection functions as a secondary cause for CDP case processing delays. While we did find that the time for processing individual CDP cases was sometimes prolonged due to the need to route them to the Examination or Collection functions, these circumstances were present in only 4 (6 percent) of the sampled CDP cases and, overall, did not account for a large number of the delays.

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Appeals management told us that they had relied on a number of techniques to identify the causes of overage cases: analysis of quarterly reports from Appeals staff on the causes of over-age CDP cases, analysis of periodic and ad hoc management reports, and site reviews that included case reviews and focus group interviews with employees. However, Appeals management's processes to identify the causes of over-age cases did not include an analysis similar to ours.

More specific guidance on when to contact the taxpayer is needed

We believe that delays in initiating taxpayer contact occurred because Appeals had not established a specific time period in which hearing officers were required to discuss the CDP case with taxpayers or schedule a hearing. The Internal Revenue Manual (IRM) guidelines require, and Appeals generally issued to taxpayers, letters within 30 days acknowledging the receipt of CDP cases. However, these letters just inform taxpayers about the Appeals process but generally are not used to schedule a hearing.

Although Appeals managers and quality review staff conducted multiple CDP case reviews of priority and over-age CDP cases, they did not concentrate on the timeliness of discussing the CDP case with the taxpayer or scheduling a hearing. Most timeliness guidance provided to Appeals managers emphasized the end of the process; i.e., getting CDP cases closed on time. The 11 Appeals managers we interviewed in a judgmental sample confirmed that they reviewed over-age CDP cases. Appeals managers also frequently mentioned that they told hearing officers to close a CDP case as soon as possible. Yet they stated that they did not hold hearing officers to any time standard in which to discuss the CDP case with taxpayers or schedule a hearing.

Appeals quality results for CDP cases in FY 2002 also indicate that timeliness could be improved. Appeals CDP cases did not meet the AQMS timeliness standard about 53 percent of the time in FY 2002. Although the AQMS review does not capture initial delays separately, in

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49 percent of all CDP cases reviewed, the hearing officer delayed the CDP case at some point in the case processing.

AQMS guidelines recommend that hearing officers make preliminary taxpayer contact within 30 days of assignment. Although hearing officers are aware of the AQMS guidelines, they are not required to follow them. According to AQMS guidelines, the norm for routine and timely business contacts within our society is 30 days. AQMS guidelines indicate, “Initial case discussions and/or conferences should be scheduled within 30 days of preliminary taxpayer contact,” but also indicate that this guideline “Should be interpreted judiciously, not strictly.” The guideline could be strengthened by requiring hearing officers to adhere more closely to a standard and by being incorporated into the IRM, which is routinely used by the hearing officers.

Delays result in lost revenue and reduced customer satisfaction

It is generally recognized that the longer collection actions are delayed, the more difficult it is to ultimately collect the delinquent amounts due. Consequently, to protect the Federal Government’s interest, every effort should be made to close a CDP case timely, while still providing taxpayers with their rights. The IRS is generally prohibited from taking collection action while a CDP case is being considered. Studies have shown that the sooner collection action is initiated, the more successful the collection results will be.⁵ Delaying the return of accounts such as these to Collection status increases the risk that fewer dollars will ultimately be collected.

The 5,561 taxpayers who received determination letters in the first 6 months of FY 2002⁶ were not subject to collection

⁵ *SB/SE Collection Process Improvements Baseline, October 5, 2001*, Booz Allen & Hamilton.

⁶ We used the first 6 months of FY 2002 to allow up to a year for subsequent resolution in the Collection function.

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actions for well over a year (477 days on average)⁷ while their CDP cases were resolved. These 5,561 taxpayers had approximately \$250 million in outstanding liabilities that had been suspended from collection actions while their CDP cases were routed to and from, and processed by, Appeals.

In addition, after Appeals finished processing the taxpayers' CDP cases and returned them to the Collection function, the taxpayers' delinquent accounts were frequently no longer subject to collection actions. Approximately 35 percent of these taxpayers' accounts, with about \$107 million in delinquencies, were then suspended from collection actions for the following reasons:

- About 11 percent of the taxpayer accounts, with about \$34 million in delinquencies, were suspended because the required computer account code had not been entered to resume collection actions.⁸
- About 12 percent of the taxpayer accounts, with approximately \$29 million in delinquencies, were suspended because the IRS deemed the CDP case to be of relatively low priority by the time it was returned to the Collection function.
- About 12 percent of the taxpayer accounts, with about \$44 million in delinquencies, were suspended because the accounts were determined to be currently not collectible.

Collection actions need to be suspended while taxpayers' CDP cases are being processed, and then some taxpayers' delinquent accounts will no longer warrant collection actions when CDP cases are returned to the Collection function. However, Appeals can reduce the negative impact on collection actions by requiring hearing officers to promptly discuss the CDP cases with taxpayers or schedule a hearing, thus decreasing the prolonged time period for

⁷ The average of 477 days applies to 4,697 taxpayers with approximately \$194 million in outstanding liabilities that had complete information available.

⁸ Appeals does not have responsibility for entering the computer account codes.

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processing CDP cases. If all the CDP cases in our sample had had prompt contacts, the hearing officers' time for processing CDP cases would have dropped by an average of 78 calendar days. In addition, reasonable standards for customer service would dictate that hearing officers be required to contact taxpayers to discuss the CDP case or schedule a hearing within 30 calendar days of a CDP case assignment.

Appeals customers have also registered concern about the length of time it takes to complete the CDP process. In FYs 2001 and 2002 customer surveys, CDP survey results indicated that reducing the time to hear from Appeals and the length of the process offered the best opportunities to improve overall customer satisfaction. Appeals recognized customers' concerns by placing a high priority on improved cycle time and CDP case processing efficiency in the Appeals FY 2003/2004 Strategy and Program Plan. Additionally, Appeals management took actions to try to address customers' concerns about timeliness, as discussed earlier. However, we believe that taking additional actions could provide more significant benefits.

Recommendations

To promote timely CDP case processing, the Chief, Appeals, should:

1. Revise the IRM guidelines to require that hearing officers discuss CDP cases with taxpayers or schedule a hearing within 30 days of CDP case assignment.

Management's Response: Appeals will issue an operational priority letter at the beginning of FY 2004, which will refer to our recommendation. Appeals will notify the employee union of the intended change for discussion of the "impact and implementation" issues that result from this change. Within a 1-year period, Appeals expects to update formal guidance in the IRM to require that hearing officers contact a taxpayer within 30 days to discuss the taxpayer's case or to schedule a future conference date.

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2. Revise AQMS criteria to calculate the timeliness of initial contact to discuss CDP cases with taxpayers or schedule a hearing, to provide Appeals management with quantitative feedback for ensuring that the standard for initial contacts on CDP cases is met.

Management's Response: Once Appeals has implemented the 30-day criterion, it will modify the AQMS criteria to monitor the progress of implementation of the 30-day contact rule.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine the effectiveness of the actions taken to decrease the processing time for Appeals Collection Due Process (CDP) cases and what additional improvements could be made. To accomplish this objective, we addressed the following sub-objectives:

- I. To determine whether Appeals and Settlement Officers (hearing officers) and Appeals managers complied with existing procedural guidelines to timely process CDP cases, we:
 - A. Researched and evaluated applicable procedures, guidelines, and best practices and interviewed national management and all area directors to evaluate the extent to which they expect the CDP case procedures and guidelines to be followed.
 - B. Selected and reviewed a statistical sample of 68 CDP cases from a population of 4,895 CDP cases with determination letters issued from May 1 through August 12, 2002, to evaluate if Appeals complied with procedural guidelines and to calculate the actual processing time for the CDP cases. We used an estimated error rate of 50 percent, a sampling confidence level of 90 percent, and a +/- 10 percent precision. We chose a statistical sample so we could project results.
 - C. Interviewed a judgmentally selected sample of 32 hearing officers (from a population of 788 hearing officers) and 11 Appeals managers (from a population of 86 Appeals managers) to identify the criteria used to establish conference and follow-up dates, methods used to monitor planned actions and key dates, causes for periods of inactivity, managerial involvement and reviews, and best practices. We selected the interviewees by identifying areas and hearing officers that exhibited more prompt processing and those that exhibited delayed processing, to contrast their practices. We chose a judgmental sample because we did not plan to project results and for efficiency.
 - D. Quantified the effect of hearing officers and Appeals managers not complying with the procedural guidelines by analyzing the Internal Revenue Service Master File¹ data to identify the current Collection function status of Appeals CDP cases having determination letters issued in Fiscal Year 2002 and analyzing data from CDP case reviews we performed on the sample of 68 CDP cases.

¹ The IRS' computer database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

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- II. To determine whether Appeals treated taxpayers consistently when establishing CDP case processing deadlines, we:
 - A. Evaluated the timeliness of actions taken and reasons for delays in the sample of 68 CDP cases.
 - B. Evaluated the reasons for untimely actions by interviewing hearing officers and Appeals managers on the sample CDP cases to identify the guidelines followed.
 - C. Evaluated the criteria used by hearing officers to determine whether the criteria promoted timely CDP case processing in accordance with good CDP case management practices.
 - D. Evaluated the burden placed on the taxpayer and the Federal Government by prolonging the processing of CDP cases.
 - E. Estimated the percentage potential reduction if all cases were promptly started. We assumed that all 68 cases could be done in the average time of the 30-case prompt contact group (106 days), except for the 4 cases with special circumstances. These 4 cases were left with their actual time to complete the case (492.75 days on average). We subtracted the new average (129 days) from the actual average (207 days) to obtain a potential improvement of 78 days, or 38 percent.

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Deputy Commissioner for Services and Enforcement SE
Director, Technical Services AP:TS
Director, Tax Policy and Procedure - Small Business/Self-Employed and Wage and Investment
SE:AP
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Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaison: Chief, Appeals AP

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

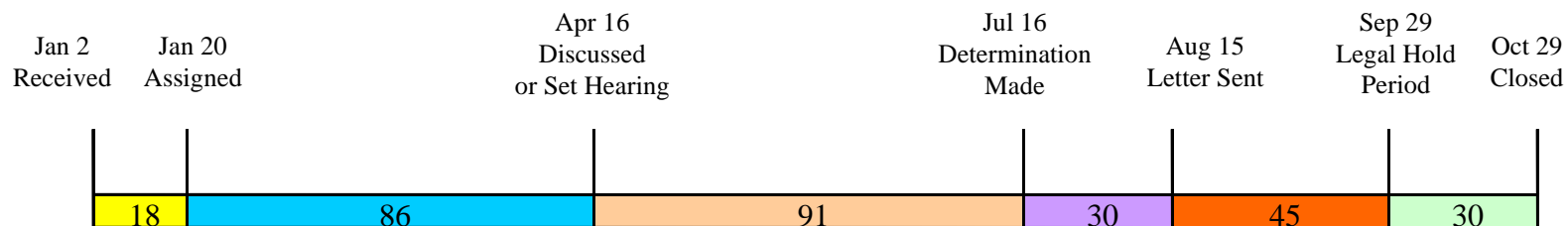
- Taxpayer Burden – Actual; taxpayers with 2,735 Collection Due Process (CDP) cases affected (see page 3).

Methodology Used to Measure the Reported Benefit:

From our nationwide statistically valid sample of 68 Appeals CDP cases with determination letters issued between May 1 and August 12, 2002, we identified 38 CDP cases (56 percent) in which the Appeals or Settlement Officer (hearing officer) did not discuss the CDP case or schedule a hearing within 30 days of CDP case assignment. As a result, these taxpayers experienced marked delays in CDP case processing compared to taxpayers with CDP cases that were promptly started.

There were a total of 4,895 CDP cases with determination letters issued during the sample period on the Appeals Centralized Database System. We estimate that for taxpayers with 2,735 CDP cases (approximately 56 percent of 4,895 CDP cases in the population), the hearing officer would not have discussed the CDP case or scheduled a hearing with the taxpayer within 30 days. We used an estimated error rate of 50 percent, a sampling confidence level of 90 percent, and a +/- 10 percent precision. We are 90 percent confident that there were between 2,246 and 3,225 CDP cases in which the hearing officer did not discuss the CDP case or schedule a hearing within 30 days of CDP case assignment.

**Timeline of Collection Due Process Phases
for Illustrative Collection Due Process
Case With January 2 Received Date**



Source: Treasury Inspector General for Tax Administration analysis of sample Collection Due Process (CDP) case data from the Internal Revenue Service. The results in the chart show the average days for each process phase for the 68 sample CDP cases. Total average days from received to closed was 300 days for 60 of the 68 sample CDP cases (8 cases were not yet closed at the time of our review).

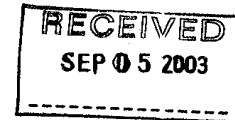
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Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



September 4, 2003

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: David B. Robison *David B. Robison*
Chief, Appeals

SUBJECT: Draft Audit Report – Appeals Could Take Additional Actions to
Improve the Timeliness of Collection Due Process Cases
(Audit # 200210047)

I reviewed the draft report, and I appreciate your efforts to help us improve the processing of Collection Due Process (CDP) cases. We support the direction and motivation behind your recommendations. We believe that good customer service would be enhanced by operations that can deliver the workload in shorter timeframes.

Since the inception of the CDP workload in Appeals, we have been working strongly and aggressively toward improving the system and delivering increased customer service. Our customer survey results indicate one of our highest priorities is to reduce the length of the Appeals process. We agree with your recommendation to require Appeals and settlement officers to make a contact concerning the taxpayer's case or to schedule a future hearing within 30 days. This new procedure will assist us in reducing the length of the Appeals process.

We are currently in a period of increasing receipts and increasing inventory and reduced staffing. In addition, our workload reflects a much wider range of taxpayers than just CDP cases. Some of our workload must automatically take precedence over CDP, such as statute expiration cases, calendared docketed cases and Taxpayer Advocate hardship consideration cases.

Due to these competing operational priorities and increasing receipts, we cannot immediately implement your primary recommendation. We believe, however, we will be in a position to do so by the end of Fiscal Year 2004. In addition, we will issue our annual operational guidelines to the field early in October which will refer to your recommendation. We will advise the field in that communication of our intention to alter our formal guidance by September 30, 2004, barring no unforeseen complications. We do expect additional staffing to roll out three campus operations next fiscal year thus placing Appeals in a much better position to work our entire inventory on a timelier basis.

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We will address your specific recommendations as follows:

RECOMMENDATION 1

To promote timely CDP case processing, the Chief, Appeals should:

1. Revise the Internal Revenue Manual guidelines to require that hearing officers discuss CDP cases with taxpayers or schedule a hearing within 30 days of CDP case assignment.

CORRECTIVE ACTION(S)

We agree that we should make a significant contact with a taxpayer within 30 days to discuss the taxpayer's case or to schedule a future conference date. However, we cannot do this immediately. We will phase this procedure in over the next year as we obtain staffing at our campus sites, which will relieve some of the burden on our field employees.

We will also issue an operational priority letter at the beginning of the Fiscal Year 2004, which will refer to your recommendation. We will notify NTEU of the intended change for discussion of the "impact and implementation" issues that result from this change. We expect to change our formal guidance in our Internal Revenue Manual. We need the 1-year period to see if there are any unexpected results from this change.

IMPLEMENTATION DATE:

September 30, 2004

RESPONSIBLE OFFICIAL(S)

Director, Technical Services, Appeals

CORRECTIVE ACTION(S) MONITORING PLAN

We propose to monitor the progress through on-going reviews by the AQMS (Appeals Quality Measurement System) and through annual operational reviews.

RECOMMENDATION 2

To promote timely CDP case processing, the Chief, Appeals should:

2. Revise AQMS criteria to calculate the timeliness of initial contact to discuss CDP cases with taxpayers, or schedule a hearing, to provide Appeals management with quantitative feedback for ensuring that the standard for initial contacts on CDP cases is met.

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3

CORRECTIVE ACTION(S)

Once we implement the 30-day criterion, we will modify the AQMS criteria to monitor the progress of implementation of the 30-day contact rule.

IMPLEMENTATION DATE(S)

September 30, 2004

RESPONSIBLE OFFICIAL(S)

Director, Strategic Planning, Appeals

CORRECTIVE ACTIONS MONITORING PLAN

Through quarterly AQMS reporting

If you have any questions, please have a member of your staff call Cheryl Revier, Program Analyst, at (202) 694-1847.